



Council Communication

TO: HONORABLE MAYOR AND COUNCILMEMBERS

FROM: DAN HENDERSON, CECD ECONOMIC DEVELOPMENT DIRECTOR,
480.503.6891

THROUGH: PATRICK BANGER, TOWN MANAGER

MEETING DATE: OCTOBER 04, 2012

SUBJECT: AUTHORIZE THE TOWN MANAGER AND TOWN ATTORNEY TO
SEND A LETTER OF SUPPORT FOR A MINOR BOUNDARY
MODIFICATION TO FOREIGN-TRADE ZONE 75, PHOENIX,
ARIZONA FOR PROPERTY LOCATED WITHIN THE TOWN OF
GILBERT.

STRATEGIC INITIATIVE: Economic Development

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LEGAL REVIEW

☒ Complete

☐ N/A

FINANCIAL REVIEW

☒ Complete

☐ N/A

RECOMMENDED MOTION

**TOAUTHORIZE A LETTER OF SUPPORT FROM GILBERT FOR A MINOR BOUNDARY
MODIFICATION TO FOREIGN-TRADE ZONE 75, PHOENIX, ARIZONA TO INCLUDE
PROPERTY LOCATED WITHIN THE TOWN OF GILBERT AND TO DIRECT THE TOWN
MANAGER AND TOWN ATTORNEY TO PREPARE THE NECESSARY DOCUMENTS FOR
SIGNATURE BY THE MAYOR.**

BACKGROUND/DISCUSSION

Foreign Trade Zones (FTZs) were created in the United States pursuant to the Foreign-Trade Zones Act of 1934 to provide special customs procedures to U.S. plants engaged in international trade-related activities. Duty-free treatment is accorded items that are processed in FTZs and then re-exported, and duty payment is deferred on items until they are brought out of the FTZ for sale in the U.S. market. This

helps to offset customs advantages available to overseas producers who compete with domestic industry. Foreign-Trade Zones are established by the Foreign-Trade Zones Board through an application and approval process.

The City of Phoenix FTZ 75 was established in 1982 and is a general-purpose with several sub-zones located within other valley municipalities. FTZ 75 has nine active FTZ users: Abbott Laboratories in Casa Grande; American Italian Pasta Company in Tolleson; Conair Corporation in Glendale; Microchip Technology in Chandler and Tempe; Intel in Chandler; and Goodrich Corporation, PetSmart, ST Microelectronics and SUMCO Southwest Corporation operating in Phoenix. The City of Phoenix will consider a minor boundary modification to FTZ 75 to establish a subzone in Gilbert upon Council approval of a site within Gilbert.

Orbital Sciences Corporation headquartered in the Dulles area of unincorporated Loudoun County, Virginia, an American company specializing in the manufacturing and launch of satellites, with Space Systems Group operations in Gilbert, Arizona. Orbital Sciences is requesting a minor boundary modification to the City of Phoenix Foreign-Trade Zone No. 75 (FTZ 75) for its location in Gilbert. One of the criteria for approval of a minor modification to an FTZ boundary is the extent of support of state and local governments. Phoenix and Orbital have requested a letter of support for a minor boundary modification to FTZ 75, Phoenix, Arizona from Gilbert.

FINANCIAL IMPACT

Title 42, Chapter 12, Article 1 of the Arizona Revised Statutes sets forth the classifications of property for the purpose of taxation in Arizona. Although the rate of property taxation is uniform, taxes vary among these classes based upon a percentage of the assessed property valuation that is used to calculate the tax for the nine classes of property. These percentages are set forth in Title 42, Chapter 15, Article 1 of the Arizona Revised Statutes.

Orbital Sciences, a manufacturing facility, falls within Class 1 pursuant to A.R.S. § 42-12001(10) and is taxed at the blended commercial property rate of 19.7% of assessed valuation, as provided in A.R.S. 42-15001. However, real property and personal property located within the boundaries of a foreign-trade zone or subzone are Class 6 properties for purposes of taxation. See A.R.S. § 42-12006(2). In accordance with A.R.S. 42-15006, all Class 6 property is taxed at the rate of 5% of assessed valuation. The dollars associated with the property tax reclassification are preliminary using 2011 tax information, 2012 tax information is not yet available, and are based on current planned FTZ activated floor space and assumed ratios for personal and real property to activated floor space. Once the minor boundary modification for FTZ 75, Phoenix, Arizona receives approval from its Board, a full tax reclassification will be conducted in conjunction with the Maricopa County Assessor's Office to determine the true and actual amount of the property reclassification and reduction. Additionally, A.R.S. § 42-15001, the rate of taxation for Class 1 properties will decrease to 19% for the year January 1, 2014 through December 31, 2014; 18.5% for the year January 1, 2015 through December 31, 2015; and 18% beginning from and after December 31, 2015.

Orbital Tax Summary at 1721 West Elliot Road:

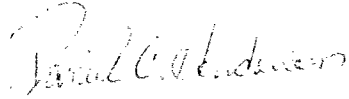
Tax Description*	2011 Taxes	Post Re-classification	Reduction
Gilbert Public Schools	\$245,702	\$227,131	\$18,571
Community College	\$57,514	\$53,167	\$4,347

City Bonds	<u>\$54,743</u>	<u>\$50,606</u>	<u>\$4,138</u>
Total	\$357,960	\$330,903	\$27,056

STAFF RECOMMENDATION

Authorize letter of support for a minor boundary modification to Foreign-Trade Zone 75, Phoenix, Arizona for property located within the Town of Gilbert and direct the Town Manager and Town Attorney to prepare the necessary documents for signature by the Mayor.

Respectfully submitted,



Dan Henderson, CEcD
Gilbert Economic Development Director